

# notes to and forming part of the financial statements

For the year ended 31 July 2001

## 1. Statement of Accounting Policies

### Reporting Entity

The Warehouse Group Limited is a company registered under the Companies Act 1993, and is listed on the New Zealand and Australian Stock Exchanges. The Warehouse Group Limited is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements and group financial statements of The Warehouse Group Limited have been prepared in accordance with the New Zealand Financial Reporting Act 1993.

### Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the group.

### Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

#### (a) Basis of Consolidation

The consolidated financial statements include the parent company and its subsidiaries, in-substance subsidiaries and joint venture investments. Subsidiaries and in-substance subsidiaries have been consolidated using the purchase method. All significant intercompany transactions are eliminated on consolidation.

#### (b) Joint Ventures

Where the group invests in joint ventures, the group's share of revenues, expenditures, assets and liabilities are included in the appropriate categories within the financial statements.

#### (c) Investments in Associate Companies

Associate companies have been reflected in the consolidated financial statements on an equity accounting basis which shows the groups share of retained surpluses in the Statement of Financial Performance and its share of post acquisition increases or decreases in net assets, in the consolidated Statement of Financial Position.

#### (d) Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts. Cash flows relating to short term and long term borrowings are presented as net cash flows, as gross cash inflows and outflows include day to day cash management.

#### (e) Fixed Assets

Fixed assets are stated at cost and depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life. Where a fixed asset is disposed of, the gain or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying amount of the fixed asset.

Estimated useful life of fixed assets:

Freehold land	indefinite
Freehold buildings	50 - 100 years
Store fittings and equipment	4 - 10 years
Computer equipment	2 - 5 years
Vehicles	5 - 8 years
Work in progress	Not depreciated

#### (f) Income Tax

The income tax expense charged to the Statement of Financial Performance includes both the current year provision and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is recognised only if there is virtual certainty of realisation.

#### (g) Inventories

Inventories are stated at the lower of cost, determined on an average cost basis, and net realisable value.

#### (h) Investments in Listed Companies

Investments in listed companies are stated at cost, except where the directors believe there has been a permanent impairment in the value of the investment. Where the directors believe there has been a permanent impairment the investments are written down to the expected net realisable value.

#### (i) Leases

Group entities lease certain land and buildings. Certain plant and equipment are also leased for short terms. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the net surplus in equal instalments over the lease term.

#### (j) Goodwill

Goodwill arising on the acquisition of a group company represents the excess of purchase price paid over the fair value of the identifiable net assets acquired. Goodwill is stated at cost and amortised on a straight line basis over five to ten years based on the expected benefits to be derived.

#### (k) Share Options

Outperform the Market Share Option Plan

The fair value of the share option when granted is recognised in equity and as an intangible asset representing the future service to be provided to the company by the team members receiving the options. This asset is amortised on a straight line basis from the grant date until the earliest exercise date.

#### New Share Option Plan

An employee compensation cost is recognised to the extent that the market price of the shares when the share option is granted exceeds the price paid for the shares by the team member upon exercising.

#### (l) Mobile Telephone Handsets

Mobile telephone handsets are sold below cost as an inducement to customers and can only be used in conjunction with telephone cards supplied exclusively by The Warehouse. The net unrecovered cost from the sale of mobile telephone handsets is recognised as an asset and amortised on a straight line basis over the period during which benefits from the sale of telephone cards are expected to be received. The maximum amortisation period is two years, subject to adjustment for churn.

#### (m) Financial Instruments

The group is party to the following financial instruments with off-balance sheet risk:

- Letters of credit to secure future purchasing requirements
- Forward exchange contracts and currency options to reduce exposure to fluctuations in foreign currency exchange rates
- Interest rate swaps and forward rate agreements to reduce exposure to fluctuations in interest rates

Letters of credit exposures are disclosed as contingent liabilities in the financial statements until valid documents are received and terms, as set out in the letter of credit, are met.

Foreign currency forward exchange contracts and currency options are used to hedge foreign currency transactions. Any exposure to gains or losses on these foreign exchange derivatives are generally offset by a related loss or gain on the item being hedged.

Any amounts paid or received on interest rate swaps or forward rate agreements are recognised as an interest expense over the period of the underlying debt hedged.

Financial instruments are not used for the purpose of trading or speculation.

All other financial exposures are recognised in the Statement of Financial Position.

#### (n) Foreign Currencies

Transactions in foreign currencies are converted to New Zealand currency at the exchange rate ruling at the date of the transaction.

Short term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated to New Zealand currency at the closing exchange rate, and exchange variations arising from these translations are recognised in the Statement of Financial Performance.

#### (o) Translation

The assets and liabilities of independent foreign operations are translated at the closing exchange rate. Revenue and expense items are translated using an average exchange rate for the period. Foreign currency exchange differences are taken to the foreign currency translation reserve.

The following exchange rates were used to translate the groups Australian business:

	<b>Australian Dollar Exchange rate</b>
Acquisition rate	0.7790
Closing rate	0.8159
Average rate	0.7912

#### Changes in Accounting Policies

There have been no material changes in accounting policies. All policies have been applied on bases consistent with those used in previous periods.



# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

	NOTE	GROUP 01 \$000	GROUP 00 \$000	PARENT 01 \$000	PARENT 00 \$000
<b>2. Other Revenue</b>					
Interest income		488	127	2	-
Rental income		2,889	3,172	-	-
Income from the sale of mobile telephone handsets	18	5,847	13,812	-	-
Rebates from the sale of mobile telephone airtime		6,629	4,538	-	-
Dividend revenue from subsidiaries		-	-	38,550	97,852
Gain on sale of properties		2,749	5,636	-	-
Gain on sale of fixed assets		-	26	-	-
Net foreign currency exchange gain		25	-	-	-
Store fire loss of profits insurance claim		-	483	-	-
Other income		2,677	2,416	-	-
<b>Total other revenue</b>		<b>21,304</b>	<b>30,210</b>	<b>38,552</b>	<b>97,852</b>

	NOTE	NZ 01 \$000	AUS 01 \$000	GROUP 01 \$000	GROUP 00 \$000
<b>3. Geographical Segments</b>					
<b>Operating revenue</b>					
Sales revenue		1,260,253	404,496	1,664,749	1,075,349
Other revenue		21,067	237	21,304	30,210
<b>Total operating revenue</b>		<b>1,281,320</b>	<b>404,733</b>	<b>1,686,053</b>	<b>1,105,559</b>
<b>Operating profit</b>					
		123,632	(1,537)	122,095	111,336
Gain on property disposals				2,749	5,636
Business origination costs				(783)	(3,809)
Divestment of pharmacy business	26			(1,059)	-
Investment impairment loss	23			(1,230)	-
Employee compensation	11			(2,304)	-
Goodwill amortisation	17			(8,726)	(325)
<b>Earnings before interest</b>				110,742	112,838
Interest				(14,927)	(4,786)
Taxation expense	7			(35,062)	(37,593)
<b>Net surplus after taxation</b>				<b>60,753</b>	<b>70,459</b>
<b>Total assets</b>		<b>436,977</b>	<b>195,268</b>	<b>632,245</b>	<b>374,448</b>
<b>Operating margin %</b>		9.8%	(0.4)%	7.3%	10.4%
<b>Operating profit / Total assets %</b>		28.3%	(0.8)%	19.3%	29.7%

The group operates predominantly in the retail sector, and until 1 August 2000 these operations were based entirely within New Zealand.

		<b>GROUP</b> 	<b>GROUP</b> 
	NOTE	\$000	\$000
<b>4. Net Surplus Before Taxation</b>			
<b>After charging</b>			
Bad debts written off		1,523	286
Provision for doubtful debts		(378)	619
Business origination costs		783	3,809
Investment impairment loss	23	1,230	-
Employee compensation	11	2,304	-
Loss on sale of fixed assets		323	-
Donations		240	323
Interest on borrowings		15,415	4,913
Leasing costs		60,642	26,613
Net foreign currency exchange loss		-	79
<b>Amortisation and depreciation</b>			
Depreciation		36,746	22,935
Goodwill	17	8,726	325
Option plan		1,896	3,074
Mobile telephone handsets	18	9,732	6,245
<b>5. Auditors' remuneration</b>			
Auditing financial statements of the group		315	161
Other services		362	572
<b>6. Directors' remuneration</b>			
<b>Directors' fees paid to non-executive directors:</b>			
K R Smith		65	60
J R Avery		40	30
R L Challinor		30	30
P Brass (retired 24 November 2000)		10	30
J Withers		30	30
G F Evans		30	30
		<b>205</b>	<b>210</b>

The maximum amount of directors fees including options issued to non-executive directors is set at \$315,000 per year.

**Remuneration and benefits provided by way of salaries and bonuses to executive directors:**

S R Tindall	339	480
P G Inger	391	386
N R Plummer	390	387
D Rickards (appointed 24 November 2000)	275	-
	<b>1,395</b>	<b>1,253</b>

Executive directors do not receive directors fees. The stated remuneration of executive directors relates to their capacities as team members. The remuneration stated above for D Rickards is for a full twelve month period. In addition, D Rickards received 8,357 ordinary shares with a taxable value of \$50,960 as part of a share issue to the groups' Australian team members (refer Note 25).

**Option plans**

On 16 July 2001 the following directors were granted options independently valued at \$0.52 each in accordance with the 2001 share option plan (refer Note 27).

	<b>Options Granted</b>
	<b>000s</b>
P G Inger	170
R L Challinor	19
J Withers	19
G F Evans	19

On 16 March 2001 the following directors exercised options granted in accordance with the 'outperform the market share option plan' (refer Note 27).

	<b>Options Exercised</b>	<b>Ordinary Shares</b>	<b>Taxable Value</b>
	<b>000s</b>	<b>000s</b>	<b>\$000</b>
P G Inger	240	126	1,109
N R Plummer	300	158	1,386

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

NOTE

GROUP  
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GROUP  
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## 7. Taxation

		GROUP 01	GROUP 00	PARENT 01	PARENT 00
		\$000	\$000	\$000	\$000
<b>Net surplus before taxation</b>		<b>95,815</b>	<b>108,052</b>	<b>38,544</b>	<b>97,836</b>
Taxation calculated at 33%		31,619	35,657	12,720	32,286
Adjustment for Australian taxation rates		439	-	-	-
<b>Prima facie income taxation</b>		<b>32,058</b>	<b>35,657</b>	<b>12,720</b>	<b>32,286</b>
<b>Adjusted for the tax effect of</b>					
Non taxable dividends		(77)	(254)	(12,722)	(32,291)
Business origination costs		90	743	-	-
Goodwill amortisation		2,654	107	-	-
Option plan amortisation		617	1,014	-	-
Other non deductible expenditure		464	300	-	-
Section DF7 notional interest on staff share purchase plan		(76)	(91)	-	-
<b>Income tax expense on profit</b>		<b>35,730</b>	<b>37,476</b>	<b>(2)</b>	<b>(5)</b>
Income tax under / (over) provided in prior year		(668)	117	-	-
<b>Total income tax expense</b>		<b>35,062</b>	<b>37,593</b>	<b>(2)</b>	<b>(5)</b>
Deferred taxation	8	2,109	(4,844)	-	-
<b>Current year taxation payable</b>		<b>37,171</b>	<b>32,749</b>	<b>(2)</b>	<b>(5)</b>
Taxation receivable at beginning of year		(4,298)	(697)	(1,248)	(609)
Taxation balances acquired		(7,659)	-	-	-
Taxation (paid) / received		(44,752)	(35,119)	-	596
Supplementary dividends		(1,146)	(1,206)	(1,146)	(1,206)
Use of money interest and other adjustments		-	(25)	(2)	(24)
Effect of exchange rate movements		619	-	-	-
<b>Taxation receivable at end of year</b>		<b>(20,065)</b>	<b>(4,298)</b>	<b>(2,398)</b>	<b>(1,248)</b>
Less future income taxation benefits receivable after more than 1 year		(8,579)	-	-	-
<b>Taxation receivable within 1 year</b>		<b>(11,486)</b>	<b>(4,298)</b>	<b>(2,398)</b>	<b>(1,248)</b>



An income tax loss incurred in Australia has been recognised as a taxation benefit. The future realisation of this taxation benefit is subject to the continuance of meeting the requirements of the Australian income tax legislation. There are no unrecognised timing differences or unrecognised income tax losses carried forward.

## Imputation Credit Account

### Memorandum account





Imputation credit at beginning of year	13,330	28,364	99	99
Taxation payments made	27,400	34,300	-	-
Credits attached to dividends paid	(17,526)	(49,848)	(17,526)	(49,848)
Credits attached to dividends received	148	510	17,526	49,848
Adjustments to previous years	(38)	4	-	-
<b>Imputation credit at end of year</b>	<b>23,314</b>	<b>13,330</b>	<b>99</b>	<b>99</b>

The parent company, together with its New Zealand guaranteeing subsidiary companies, form a consolidated group for income tax purposes. Accordingly the group imputation credit account movements reported above are for the tax group, and are available to shareholders through their shareholding in the parent company.

	<b>GROUP</b>  <b>\$000</b>	<b>GROUP</b>  <b>\$000</b>
<b>8. Deferred Taxation</b>		
<b>Balance at beginning of year</b>	2,205	7,049
Taxation balances acquired	1,488	-
Recognised in the Statement of Financial Performance	2,109	(4,844)
Effect of exchange rate movements	8	-
<b>Balance at end of year</b>	<b>5,810</b>	<b>2,205</b>

**Deferred taxation asset consists of:**

Depreciation differences	(563)	(97)
Differences arising from capitalising mobile telephone handsets	(1,549)	(2,606)
Holiday pay and other payroll related accruals	5,103	3,141
Investment impairment loss	406	-
Provisions and other timing differences	2,413	1,767
<b>Total deferred taxation</b>	<b>5,810</b>	<b>2,205</b>

	<b>GROUP &amp; PARENT</b>  <b>\$000</b>	<b>GROUP &amp; PARENT</b>  <b>\$000</b>	<b>ORDINARY SHARES</b>  <b>000s</b>	<b>ORDINARY SHARES</b>  <b>000s</b>
<b>9. Earnings Per Share</b>				
Group net surplus / Weighted average number of shares on issue	60,405	70,053	298,255	287,846
Net surplus per share (cents per share - cps)			20.3 cps	24.3 cps

Earnings per share is calculated by dividing the group net surplus after taxation and minority interests by the weighted average number of ordinary shares on issue during the year. The previous year's comparatives are adjusted for the March 2000 1:1 bonus issue.





**10. Dividends and Bonus Issues**

Interim dividend - fully imputed	25,864	24,462	8.5 cps	8.5 cps
Interim special dividend - fully imputed	-	25,901	-	9.0 cps
Final dividend - fully imputed	12,173	11,514	4.0 cps	4.0 cps
Adjustment to previous years final dividend payment	513	-	-	-
<b>Total dividends paid and provided in cash (cents per share - cps)</b>	<b>38,550</b>	<b>61,877</b>	<b>12.5 cps</b>	<b>21.5 cps</b>
Bonus issue provided from retained earnings (25 cents per share)	-	35,975		
<b>Total distributions to shareholders</b>	<b>38,550</b>	<b>97,852</b>		

A final dividend of 4 cents per share was declared by the Board 26 July 2001. The previous year's dividends per share are adjusted for the March 2000 1:1 bonus issue.

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

		GROUP & PARENT 	GROUP & PARENT 	ORDINARY SHARES 	ORDINARY SHARES 
	NOTE	\$000	\$000	000s	000s
<b>11. Share Capital</b>					
<b>Share capital at beginning of year</b>		155,738	118,674	287,857	143,877
Shares issued at \$4.55 per ordinary share		58,067	-	12,762	-
Shares issued at \$5.83 per ordinary share		1,165	-	200	-
<b>Shares issued to acquire Australian subsidiary</b>	25	59,232	-	12,962	-
Share options exercised	27	-	-	4,066	85
Share options granted		-	1,210	-	-
Share options forfeited		(287)	(121)	-	-
Shares repurchased		(395)	-	(557)	-
1:1 bonus issue at \$0.25 per ordinary share	10	-	35,975	-	143,895
<b>Share capital at end of year</b>		<b>214,288</b>	<b>155,738</b>	<b>304,328</b>	<b>287,857</b>

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

## Share options exercised



The first tranche of options granted in accordance with the 'outperform the market share option plan' became exercisable on 16 March 2001 and during the seven days that followed 7,878,000 options at share prices ranging between \$5.75 and \$5.97 were exercised. During the year a total of 8,292,000 options were exercised at share prices ranging between \$5.42 and \$6.12 resulting in the issue of 4,066,000 shares.

As a result of the options being exercised the company incurred an employee compensation expense. This expense arises on the difference in taxation rates between PAYE paid on behalf of the team members and the taxation credit available to the group. The payment of PAYE on behalf of the team members and available as a taxation credit has been treated as a taxation payment in the Statement of Financial Position and Statement of Cashflows.

	Taxable Value \$000
Total taxable value of options exercised by team members	38,458
Taxation credit available to the group calculated at 33% thereon	(12,691)
PAYE paid on behalf of team members	14,995
<b>Employee compensation</b>	<b>2,304</b>

## Shares repurchased

In November and December 2000 the group repurchased 557,000 shares on the open market for \$3,229,000 at share prices ranging between \$5.65 and \$6.30 per share. The repurchased shares were cancelled for \$395,000 at \$0.71 per share, with the premium of \$2,834,000 being transferred to retained earnings.

	GROUP 	GROUP 
	\$000	\$000
<b>12. Foreign Currency Translation Reserve</b>		
<b>Foreign currency translation reserve at beginning of year</b>	-	-
Arising on translation of the Australian business	369	-
<b>Foreign currency translation reserve at end of year</b>	<b>369</b>	-

	GROUP 01	GROUP 00	ORDINARY SHARES 01	ORDINARY SHARES 00
NOTE	\$000	\$000	000s	000s
<b>13. Treasury Stock</b>				
<b>Treasury stock at beginning of year</b>	4,477	4,517	1,869	959
Staff share purchase plan forfeited	392	259	81	64
1:1 bonus issue at \$0.25 per ordinary share	-	240	-	960
Allocated to staff share purchase plan	(2,217)	-	(893)	-
Shares issued to staff in lieu of cash remuneration	(135)	(539)	(56)	(114)
<b>Treasury stock at end of year</b>	<b>2,517</b>	<b>4,477</b>	<b>1,001</b>	<b>1,869</b>

#### Ordinary shares held by the trustee of the share purchase plan

Unallocated treasury stock		1,001	1,869
Allocated to staff share purchase plan	27	1,524	832
		<b>2,525</b>	<b>2,701</b>

#### Percentage of share capital

0.83%      0.94%

Shares held by the trustee are fully paid and carry the same voting rights as other issued ordinary shares. Voting rights attached to the shares are held by the trustee, and dividends paid on unallocated shares are retained by the trustee for the benefit of the group. The directors may appoint or remove any trustee by directors' resolution.

#### 14. Fixed Assets

	Group 2001			Group 2000		
	Cost \$000	Accum Deprn \$000	Book Value \$000	Cost \$000	Accum Deprn \$000	Book Value \$000
Freehold land	25,906	-	25,906	18,905	-	18,905
Freehold buildings	70,755	4,777	65,978	48,855	3,785	45,070
Store fittings and equipment	155,266	69,194	86,072	101,165	51,370	49,795
Computer equipment	60,181	33,538	26,643	44,719	30,092	14,627
Vehicles	13,462	7,078	6,384	4,047	2,661	1,386
Work in progress	13,366	-	13,366	31,520	-	31,520
<b>Total fixed assets</b>	<b>338,936</b>	<b>114,587</b>	<b>224,349</b>	<b>249,211</b>	<b>87,908</b>	<b>161,303</b>

#### Valuation

The directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be \$117,697,000 (2000 - \$105,837,000). The directors' valuation was approved by the Board 6 September 2001.


#### 15. Investments in Group Companies

	Principal Activity	Country of Incorporation	Shareholding	
			2001 %	2000 %
<b>Guaranteeing subsidiaries</b>				
The Warehouse Limited	Retail	New Zealand	100%	100%
The Warehouse Group (Australia) Pty Limited (formerly Colonel Clints Crazy Bargain Stores Pty Limited)	Retail	Australia	100%	-
Warehouse Stationery Limited	Retail	New Zealand	100%	100%
Eldamos Investments Limited	Store property owner	New Zealand	100%	100%
Gallery Prints Limited	Retail	New Zealand	50%	50%
Waikato Valley Chocolates Limited	Chocolate factory	New Zealand	50%	50%
Warehouse Management Trustee Company Limited	Share plan trustee	New Zealand	100%	100%
<b>Non guaranteeing subsidiary</b>				
The Warehouse Investments Limited (formerly Care Chemist Limited)	Administration	New Zealand	100%	50%
<b>Non guaranteeing associate company and joint venture</b>				
The Warehouse Financial Services Limited	Financial services	New Zealand	49%	-
Lincoln West Limited	Store property owner	New Zealand	50%	50%

At 31 July 2001, the percentage shareholdings noted above were held in significant subsidiary companies, associates and joint ventures. All these companies have 31 July balance dates with the exception of The Warehouse Financial Services Limited which has a 30 September balance date.

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

**GROUP**  **GROUP** 

	NOTE	\$000	\$000
<b>16. Intangible Assets</b>			
Goodwill	17	67,773	1,397
Mobile telephone handsets	18	4,694	7,898
Outperform the market share option plan	27	242	2,424
Pharmacy franchises		-	162
<b>Total intangible assets</b>		<b>72,709</b>	<b>11,881</b>
<b>17. Goodwill</b>			
<b>Balance at beginning of year</b>		1,397	1,722
<b>Acquisitions</b>			
The Warehouse Group (Australia) Pty Limited	25	77,843	-
The Warehouse Investments Limited	26	498	-
<b>Goodwill arising from acquisitions</b>		78,341	-
Amortisation		(8,726)	(325)
Effect of exchange rate movements		(3,239)	-
<b>Balance at end of year</b>		<b>67,773</b>	<b>1,397</b>
<b>18. Mobile Telephone Handsets</b>			
<b>Balance at beginning of year</b>		7,898	817
<b>Handsets capitalised</b>			
Income from the sale of handsets		(5,847)	(13,812)
Cost of handsets sold		12,375	24,769
<b>Net handsets capitalised</b>		6,528	10,957
Rebate reclassified to working capital		-	2,369
Handset amortisation including allowance for churn		(9,732)	(6,245)
<b>Balance at end of year</b>		<b>4,694</b>	<b>7,898</b>
<b>19. Advances Receivable</b>			
Advances on shares allocated to staff under the staff share purchase plan	27	4,765	2,244
Other advances		322	705
<b>Total advances receivable</b>		5,087	2,949
Less advances receivable within 1 year		(1,545)	(851)
<b>Total advances receivable after more than 1 year</b>		<b>3,542</b>	<b>2,098</b>
<b>20. Receivables and Prepayments</b>			
Trade receivables		10,416	8,328
Provision for doubtful debts		(310)	(688)
<b>Net trade receivables</b>		10,106	7,640
Prepaid expenses and interest		2,813	2,171
Property development advance		199	1,379
Property settlements receivable on unconditional sale agreements		8,039	4,528
<b>Total receivables and prepayments</b>		<b>21,157</b>	<b>15,718</b>

Trade credit sales are on 30 day terms.

Property development advances are repayable on demand.

Property settlements are receivable according to the terms set out in the unconditional sale and purchase agreements.

		 <b>GROUP</b> <b>01</b>	 <b>GROUP</b> <b>00</b>
	NOTE	\$000	\$000
<b>21. Creditors and Accruals</b>			
Trade creditors		93,186	54,322
Goods in transit creditors		17,899	15,386
Accrued staff entitlements		15,641	20,115
Property development payables		3,819	-
<b>Total creditors and accruals</b>		<b>130,545</b>	<b>89,823</b>

Trade creditor terms are between 7-90 days.

## 22. Borrowings

<b>Bank overdrafts</b>		<b>395</b>	-
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The interest rate at 31 July 2001 was 7.85% (2000 – 8.35%) on New Zealand dollar overdrafts and 8.70% on Australian dollar overdrafts.

### Short term borrowings

Over night borrowings		10,105	43,816
90 day borrowings		40,000	20,000
	28	<b>50,105</b>	<b>63,816</b>

### Term borrowings

Repayable within six to twelve months		-	20,000
Repayable within one to two years		-	10,000
Repayable within two to five years		179,785	-
<b>Total term borrowings</b>	28	<b>179,785</b>	<b>30,000</b>

### Negative pledge deed

Bank borrowings are subject to a negative pledge deed which replaced the previous debenture trust deed from October 2000. The negative pledge deed provides a guarantee to the group's banking institutions that the parent and its guaranteeing group companies (refer Note 15) will comply with certain debt ratio's and restrictive covenants.

## 23. Investments

### Listed investment

e-Ventures Limited (cost)		3,000	3,000
Impairment provision		(1,230)	-
		1,770	3,000

### Investment in associate

The Warehouse Financial Services Limited (cost)		490	-
<b>Total investments</b>		<b>2,260</b>	<b>3,000</b>

### e-Ventures Limited

The directors believe there has been a permanent impairment to the value of the group's shareholding in e-Ventures Limited, and have written down the value of the investment to the estimated net asset backing. The market value of these shares as at 31 July 2001 was \$1,450,000 (2000 - \$2,650,000)

### The Warehouse Financial Services Limited

In July 2001 the group paid \$490,000 to subscribe for 49% of the formation share capital of The Warehouse Financial Services Limited. The remaining 51% of the capital being purchased by the group's partner in this venture, Westpac Holdings-NZ-Limited. From August 2001 The Warehouse Financial Services Limited will offer a range of financial services to potential customers within New Zealand. The operation of The Warehouse Credit Card and the credit card book were also transferred to the new venture in August 2001. There was no change in the group's share of the associate's equity from the date of formation as The Warehouse Financial Services Limited had not commenced any trading activities before 31 July 2001.

## 24. Inventory

In some instances where goods have been purchased locally, the supplier retains title to the goods until payment has been made. No inventories have been specifically or separately pledged as security for any liabilities.

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

GROUP



\$000

## 25. Acquisition of The Warehouse Group (Australia) Pty Limited

On 1 August 2000 the group acquired 100% of the shares in The Warehouse Group (Australia) Pty Limited (formerly Colonel Clints Crazy Bargain Stores Pty Limited), a discount retail chain operating in Australia. Details of the acquisition are as follows:

### Consideration comprises

Shares issued	59,232
Tax credit receivable	(5,463)
Cash	60,287
Effect of exchange rate movements	(35)
<b>Total consideration</b>	<b>114,021</b>

### Net assets acquired

Fixed assets	35,682
Deferred tax	1,488
Current assets	73,971
Current liabilities	(40,245)
Borrowings	(34,718)
<b>Total net assets acquired</b>	<b>36,178</b>

### Goodwill

**77,843**

### Share Consideration

The ordinary shares issued to satisfy the acquisition consideration are subject to restrictive covenants. The 9,051,000 ordinary shares issued to the vendors in October 2000 and January 2001 can not be sold without the consent of the directors within two years of the issue date. The remaining share consideration of 3,911,000 ordinary shares issued to team members of The Warehouse Group (Australia) Pty Limited in November 2000 and March 2001 are partially restricted with team members unable to sell more than fifty percent of their share entitlement within three years of the issue date.

### Deferred Consideration

A potential deferred consideration of up to \$11 million Australian dollars will become payable should the acquired Australian business achieve certain earnings targets by the year 2003.

## 26. Divestment of Pharmacy Franchise Business

In June 2001 the group terminated its pharmacy franchise business. As a consequence of exiting this business the group acquired the remaining 50% interest in The Warehouse Investments Limited (formerly Care Chemists Limited). The total costs of exiting the pharmacy business are as follows:

Cash consideration	37
Less cash balances acquired	(44)
<b>Net cash received</b>	<b>(7)</b>
Add current liabilities acquired	505
Goodwill arising on acquisition	498
Existing goodwill	334
<b>Total goodwill written off</b>	<b>832</b>
Fixed assets and pharmacy advances written off	1,059
<b>Pre-tax cost of pharmacy divestment</b>	<b>1,891</b>
Taxation	(301)
<b>Total after tax cost of pharmacy divestment</b>	<b>1,590</b>

## 27. Option and Share Purchase Plans

Grant Date	Exercise Period	Exercise Price	Number on issue 2000	Issued During the Year	Exercised During the Year	Lapsed During the Year	Number on Issue 2001
		\$	000s	000s	000s	000s	000s
<b>Outperform the Market Share Option Plan</b>							
16/12/1998	16/03/2001 - 15/03/2002	-	8,689	-	(8,284)	(243)	162
16/12/1999	15/10/2001 - 15/10/2002	-	450	-	-	-	450
22/12/1999	22/03/2002 - 21/03/2003	-	685	-	(8)	(90)	587
			9,824	-	(8,292)	(333)	1,199
<b>New Share Option Plan</b>							
16/07/2001	16/03/2004 - 31/05/2004	\$7.15	-	6,989	-	-	6,989
<b>Total Options</b>			<b>9,824</b>	<b>6,989</b>	<b>(8,292)</b>	<b>(333)</b>	<b>8,188</b>

### Staff Share Purchase Plan (Under Section DF7 Income Tax Act 1994)

31/01/1995	31/01/1998 - 31/01/2000	\$1.75	3	-	(3)	-	-
31/01/1997	31/01/2000 - 31/01/2002	\$2.00	206	-	(84)	-	122
31/01/1997	31/01/2000 - 31/01/2002	\$1.30	6	-	(2)	-	4
31/07/1997	31/07/2000 - 31/07/2002	\$3.00	73	-	(29)	-	44
31/05/1999	31/05/2002 - 31/05/2004	\$4.79	544	-	(2)	(77)	465
18/05/2001	18/05/2004 - 18/05/2006	\$4.04	-	893	-	(4)	889
<b>Total Shares</b>			<b>832</b>	<b>893</b>	<b>(120)</b>	<b>(81)</b>	<b>1,524</b>

### Outperform the market share option plan

Share options were granted to team members during 1998 and 1999 in accordance with the option plans approved by shareholders at the 1998 and 1999 annual meetings. The number of shares each option convert to once exercised is based on the gain in the group's share price relative to the New Zealand Stock Exchange 40 Gross Index over the period following grant date until the exercise date. The options have no nominal value and were granted to team members for no cash consideration. The fair value of the options at grant date has been recognised in equity and as an intangible asset. The intangible asset, which represents the value of the service provided to the group by the team members, is amortised over the period from grant date until the earliest exercise date.

### New share option plan

The 'outperform the market share option plan' benchmarked against the New Zealand Stock Exchange 40 Gross Index is no longer appropriate with results now dependent on the group's Australasian performance. The new share option plan approved by shareholders at the special general meeting on 28 June 2001 introduced fixed price share options with an exercise price set 'out of the money'. The exercise price is based on a growth target over the period from grant date until the commencement of the exercise period. The target growth rate is currently set at 13% compounded annually (after adjusting for dividends), reflecting a level of performance the directors' believe shareholders would desire.

The directors' after taking into consideration the characteristics of the new plan, believe that the value of the options granted to team members should be accounted for under the terms of APB25. The standard requires the group to recognise as a cost the difference between the market price of the shares when the options are granted and the exercise price paid by team members. Accordingly the group has not recognised any cost for the share options granted.

A maximum of 7,500,000 options can be offered to Australian and New Zealand team members selected at the discretion of the directors prior to 16 March 2002, and thereafter for each of the next three years. On 15 August 2001 a further 398,000 options were granted to team members bringing the total of options issued under the new plan to 7,387,000 (324 team members).



### Staff share purchase plan (under Section DF7 Income Tax Act 1994)

The Warehouse Management Trustee Company acts as trustee for the team members' share purchase plan. At regular intervals the trustee offers shares to permanent team members of the group resident in New Zealand with service in excess of 750 hours per year. Shares are offered at a price set by the trustee and issued from treasury stock under Section DF7 of the Income Tax Act 1994, to a maximum consideration of \$2,340 per employee in any three year period. Team members accepting the share offer are provided financial assistance on an interest free basis, payable over five years in regular instalments.

The shares allocated to team members are held in trust for a three year restrictive period, and then until outstanding advances are fully repaid. If a team member terminates employment during the restrictive period, the shares are returned to treasury stock and may be reissued at the discretion of the trustees.

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

<b>GROUP</b>	<b>GROUP</b>
	
<b>\$000</b>	<b>\$000</b>

## 28. Financial Instruments

### Off-balance sheet financial instruments

#### Forward exchange contracts and currency options

Contract amounts	237,638	165,121
Valuation at balance date	238,648	179,238

#### Notional principal of interest rate derivatives

Matched to borrowings	113,538	40,000
Short term 90 day seasonal hedges	-	30,000

The parent has no off-balance sheet financial instruments.

### Interest rate risk

Borrowings are partially hedged, by a combination of interest rate swaps and forward rate agreements. The directors regularly review the amount, and the mix of interest rate derivatives used for hedging purposes. The calculation of the effective interest rates and repricing periods of the group borrowings in the table below, includes the effect of these interest rate derivatives.

	<b>Interest</b>	<b>Interest</b>	<b>Group</b>	<b>Group</b>
	<b>Rates 2001</b>	<b>Rates 2000</b>	<b>2001</b>	<b>2000</b>
	%	%	<b>\$000</b>	<b>\$000</b>
<b>Short term borrowings</b>				
Reprices within six months	6.15%	7.05%	10,105	53,816
Reprices within six to twelve months	6.03%	5.82%	10,000	10,000
Reprices within one to two years	7.07%	-	20,000	-
Reprices within two to five years	6.76%	-	10,000	-
<b>Total short term borrowings</b>	<b>6.61%</b>	<b>6.86%</b>	<b>50,105</b>	<b>63,816</b>
<b>Term borrowings</b>				
Reprices within six months	5.31%	-	106,247	-
Reprices within six to twelve months	5.57%	7.70%	12,256	20,000
Reprices within one to two years	5.47%	6.03%	24,513	10,000
Reprices within two to five years	5.72%	-	36,769	-
<b>Total term borrowings</b>	<b>5.43%</b>	<b>7.14%</b>	<b>179,785</b>	<b>30,000</b>

### Currency risk





The group enters into forward exchange contracts and currency options to reduce the currency risks associated with purchasing goods in foreign currencies. The group's overseas purchases are principally denominated in US dollars, and the group's policy since March 1998 has been to cover between 35% and 65% of the forecasted US dollar commitments on a rolling twelve month basis. Where other specific currency exposures are known, the group hedges these risks as they arise.

### Credit risk

Financial instruments that potentially subject the group to credit risk principally consist of bank balances, off balance sheet financial instruments, receivables and advances.

The group's deposits and off balance sheet financial instruments are placed only with major banks within limits approved by the directors. Team members advanced funds to purchase shares in accordance with the share purchase plan, are not given the shares until the advances are fully repaid. Agreements for the sale of property are entered into only with parties of high credit quality, and title and possession do not pass until settlement. The group performs credit evaluations on customers requiring credit but generally does not require collateral. Concentrations of credit risk with respect to trade receivables are limited due to the minor nature and spread of such accounts. There were no other concentrations of credit risk at balance date.

The Warehouse Card (a private label credit card) did not expose the group to any credit risk during the year ended 31 July 2001 as credit was granted through Westpac Banking Corporation on a non-recourse basis. In August 2001 the group acquired a 49% share of the credit risk of The Warehouse Card business when the groups associate company, The Warehouse Financial Services Limited purchased the credit card book.

GROUP	GROUP	PARENT	PARENT
			
\$000	\$000	\$000	\$000

**Maximum exposures to credit risk at balance date are:**

Cash, bank in funds and deposits	4,417	2,470	123	106
Trade receivables and advances	15,392	11,968	170,480	115,935
Property settlements receivable on unconditional sale agreements	8,039	4,528	-	-
<b>Total exposure to credit risk</b>	<b>27,848</b>	<b>18,966</b>	<b>170,603</b>	<b>116,041</b>

**Credit facilities**

The group had bank funding facilities (including letters of credit, but excluding seasonal facilities) of \$408,554,000 available at 31 July 2001 (2000 - \$180,000,000). The amount undrawn after borrowings and outstanding letters of credit was \$135,019,000 (2000 - \$42,822,000).

**Fair values**

The estimated fair values of the group's financial instruments which differ from the carrying values are as follows:

	Carrying Amount 2001 \$000	Fair Value 2001 \$000	Carrying Amount 2000 \$000	Fair Value 2000 \$000
<b>Group</b>				
Investments in listed companies	1,770	1,450	3,000	2,650
<b>Off-balance sheet financial instruments</b>				
Forward exchange contracts and currency options	-	1,010	-	14,117
Interest rate swaps and forward rate agreements	-	698	-	323
Bank letters of credit issued to secure future purchasing requirements	-	(43,250)	-	(36,994)
Bank letters of credit issued to secure deposit on Australian acquisition	-	-	-	(6,368)

The fair value of the bank letters of credit has been determined on the face value of the credit. The fair value of the interest rate derivatives, forward exchange contracts, currency options and investment in listed companies are based on the quoted market price of the financial instrument or comparable financial instruments.

It was not practicable to estimate the fair value of the staff share purchase plan advances as there is no market for the advances and the timing of repayment is uncertain.

**29. Contingent Liabilities**

Bank letters of credit issued to secure future purchasing requirements	43,250	36,994
New Zealand Stock Exchange bond	75	75
<b>Total contingent liabilities</b>	<b>43,325</b>	<b>37,069</b>



The parent company had no contingent liabilities (2000 - nil).

The group has a contingent liability for guarantees and bonus points, which cannot be reliably estimated. The Warehouse Limited and Warehouse Stationery Limited both offer a money back guarantee on goods sold, and any cost of making good a customer's purchase is accounted for when incurred.

The Warehouse Card (a private label credit card) operates a bonus points system on purchases made using the card. The bonus points may be redeemed for discount in conjunction with particular marketing promotions. The Warehouse Card business and any obligations under the bonus points system were transferred to the groups associate company, The Warehouse Financial Services Limited in August 2001. The liability for bonus points transferred to the associate has been capped at \$300,000 with any excess liability arising being paid by The Warehouse Limited.

# notes to and forming part of the *financial* *statements* - continued

For the year ended 31 July 2001

<b>GROUP</b>	<b>GROUP</b>
	
<b>\$000</b>	<b>\$000</b>

## 30. Commitments

### Capital commitments

Contracts entered into for capital expenditure within the next twelve months which have not been provided for in the Statement of Financial Position

	3,376	13,375
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### Lease commitments

The group has the following non-cancellable operating lease commitments which relate to leases of store premises:

Due within one year	67,045	30,281
Due within one to two years	57,544	29,151
Due within two to five years	107,969	77,010
Due after five years	113,832	66,796
<b>Total lease commitment</b>	<b>346,390</b>	<b>203,238</b>

The parent company had no capital or lease commitments (2000 - nil).

## 31. Related Parties

The group has paid for professional services at normal commercial rates from the following firms in which a director has an interest:

BDO Spicers (K R Smith - Partner)	86	79
Hesketh Henry (J R Avery - Partner)	514	409
L.E.K Consulting Pty Limited (R L Challinor - Advisory Board member)	125	569
Argent Networks Limited (S R Tindall - Indirect shareholder through No 8 Ventures Management Limited)	405	-
<b>Total professional fees paid to related parties</b>	<b>1,130</b>	<b>1,057</b>

The group has paid store and distribution centre rents to the following property companies in which a director has an interest:

Volandu Pty Limited (D Rickards - Shareholder/Director)	2,022	-
O'Neill & Rickards Partnership (D Rickards - Partner)	1,837	-
Kyber Investments Limited (N R Plummer - Shareholder/Director)	404	412
<b>Rent paid to related parties</b>	<b>4,263</b>	<b>412</b>

In July 2001 the group sold two properties to the following companies in which a director has an interest:

	<b>Sale Proceeds \$000</b>	<b>Book Value \$000</b>	<b>Gain on Sale \$000</b>
Mt Druitt store - New South Wales, Australia			
Volandu Pty Limited (D Rickards - Shareholder/Director)	3,792	3,244	548
Pukekohe Warehouse Stationery store and tenancies - New Zealand			
Pukeko Creek Limited (P G Inger - Shareholder/Director)	1,648	1,437	211

The directors having taken into consideration independent valuations and purchase offers approved the sale of the above two properties at the July 2001 board meeting. The sale proceeds received were commensurate with current market values for both properties.

Directors are entitled to purchase goods at normal staff discount. Other specific Director's disclosures are made in Note 6. No related party debt has been written off or forgiven during the year.